

Message Text

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ACTION EUR-12

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CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-05

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 8748

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SUBJECT: MEETING BETWEEN AMBASSADOR VOLPE AND TREASURY MINISTER
COLOMBO AT TREASURY MINISTRY, ROME, DECEMBER 18, 1974

1. THE AMBASSADOR MET WITH TREASURY MINISTER COLOMBO ON THE EVENING OF DECEMBER 18 IN ORDER TO PAY A COURTESY VISIT BUT ALSO TO ELICIT COLOMBO'S VIEWS REGARDING THE ECONOMIC SITUATION IN ITALY. COLOMBO NOTED THAT HE HAD SEEN DIFFICULT TIMES IN THE PAST AND THAT THE PRESENT ECONOMIC SITUATION IN ITALY AND ELSEWHERE WAS INDEED SERIOUS CAUSE FOR CONCERN. THE GOI IS PAYING PARTICULAR ATTENTION TO THE PROBLEM OF THE BUDGET DEFICIT AND ADDITIONAL MEASURES MIGHT BE TAKEN IN THE NEAR FUTURE TO ASSURE THAT GOVERNMENT SPENDING IS KEPT TO A MINIMUM. THE GOI IS PREPARING FOR TALKS WITH THE LABOR UNION LEADERS AND WILL CONSIDER LABOR DEMANDS AS THEY RELATE TO GOVERNMENT SPENDING. IN ANY CASE, FURTHER BUDGETARY SPENDING WILL HAVE TO BE KEPT TO A MINIMUM.

2. THE AMBASSADOR NOTED THAT ITALY'S NON-OIL EXPORTS AND
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IMPORTS WERE ALMOST IN BALANCE AND ASKED WHETHER COLOMBO

FELT THE SITUATION WOULD CONTINUE. COLOMBO REPLIED THAT ITALY'S NON-OIL DEFICIT WOULD BE COMPLETELY ELIMINATED WELL BEFORE THE DECEMBER 1975 TARGET DATE--PROBABLY AS EARLY AS MID-1975. COLOMBO AGREED THAT THE PRESENT PRICE FOR PETROLEUM IS EXCESSIVE AND SAW LITTLE OR NO HOPE THAT PRICES WOULD BE REDUCED IN THE SHORT TERM. COLOMBO ADDED THAT HE WAS "BAFFLED" AT NEW OPEC PRICE INCREASE AND DID NOT KNOW WHAT IMPACT THESE PRICE CHANGES WOULD HAVE ON ITALY'S IMPORTS. IN ANY CASE, THE PROBLEM OF FINANCING THE OIL DEFICIT IS A SERIOUS ONE ALTHOUGH ITALY HOPES TO BE ABLE TO FINANCE PART OF THIS DEFICIT NEXT YEAR THROUGH EXPANDED EXPORTS. HOWEVER, COLOMBO EXPRESSED THE FEAR THAT WORLD RECESSIONARY TENDENCIES COULD ADVERSELY AFFECT ITALY'S EXPORT MARKETS WITH THE RESULT THAT ANY DECLINE OR STAGNATION OF EXPORTS WOULD MAKE IT IMPOSSIBLE FOR ITALY TO FINANCE THE DEFICIT FROM ITS OWN RESOURCES. AS FOR THE PROBLEM OF INFLATION, THERE WERE RECENT SIGNS IN THE COST OF LIVING AND VARIOUS PRICE INDICES THAT THE RATE OF INFLATION IN ITALY WAS EASING. NONETHELESS, COLOMBO CHARACTERIZED INFLATION IN ITALY AS "EXCESSIVE" AND SAID THAT GOI WILL CONTINUE ITS EFFORTS TO COMBAT THE PROBLEM. HE RECOGNIZED THAT THE LABOR UNIONS ARE INTERESTED IN MAINTAINING EMPLOYMENT LEVELS AND IT REMAINED TO BE SEEN WHETHER OR HOW UNION DEMANDS COULD BE RECONCILED WITH THE GOI'S RESTRICTIVE ECONOMIC POLICIES.

3. THE AMBASSADOR REFERRED TO THE RECENT MEETING BETWEEN PRESIDENT FORD AND FRENCH PRIME MINISTER D'ESTAING. COLOMBO AGREED THAT THE MEETING HAD BEEN SUCCESSFUL AND HAD BEEN USEFUL IN FURTHERING PETROLEUM CONSUMER SOLIDARITY. THE AMBASSADOR NOTED THAT THE PROCESS OF REACHING A CONSUMER-PRODUCER CONFERENCE WOULD TAKE PLACE IN SUCCESSIVE STAGES, WITH PROGRESS NECESSARY AT EACH STAGE IN ORDER TO REACH THE SUBSEQUENT STAGE OF DISCUSSIONS. WE EXPECT THE INTERNATIONAL ENERGY AGENCY TO DISCUSS ENERGY CONSERVATION AND SUPPLY QUESTIONS AND THAT THE QUESTION OF INTERNATIONAL FINANCIAL SOLIDARITY WOULD BE DISCUSSED IN OTHER INTERNATIONAL FORA.

4. THE AMBASSADOR REFERRED TO A RECENT PRESS REPORT INDICATING LIMITED OFFICIAL USE

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THAT ITALY REMAINED CLOSE TO THE BOTTOM OF THE EC ENERGY CONSERVATION LIST, HAVING REDUCED ENERGY IMPORTS OVER THE PAST YEAR BY ONLY 3-4 PERCENT. COLOMBO REPLIED THAT ITALY'S ENERGY IMPORTS IN FACT HAD NOT DECLINED SHARPLY DURING THE PAST YEAR. ITALY HAS VIRTUALLY NO ALTERNATIVE ENERGY SOURCES, AS DO OTHER EC COUNTRIES, AND SOME TIME LAG WOULD BE NECESSARY BEFORE ITALIAN INDUSTRY COULD RESTRUCTURE ITS ENERGY NEEDS. IN ANY EVENT, THE GOI

IN JANUARY OR FEBRUARY WOULD PROBABLY ADOPT MEASURES
DESIGNED TO FURTHER REDUCE ENERGY IMPORTS.

5. IN CONCLUDING THE MEETING WITH COLOMBO, THE AMBASSADOR
EXPRESSED PLEASURE THAT THE US AND ITALY HAD REACHED
AGREEMENT REGARDING THE APPLICABILITY OF THE US-ITALY DOUBLE
TAXATION CONVENTION UNDER THE TAX REFORM. A PRESS
COMMUNIQUE ANNOUNCING THE AGREEMENT WOULD BE ISSUED THAT VERY
EVENING IN WASHINGTON AND IN ROME. VOLPE

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